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Submission to Committee C National Parliament of Timor-Leste

from
La'o Hamutuk

on
The Proposed 2020 State Budget

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Introduction

La'o Hamutuk appreciates the opportunity to submit our suggestions with regard to the proposed 2020 General State Budget; we hope that this submission will help you make decisions to improve the budget to strengthen our economy and social services to meet the needs of the people.

We realize that the Government faces an unusual budgetary situation (the duodecimal system) because previous versions of the 2020 State Budget were rejected by the National Parliament. This version of the 2020 State Budget was prepared during the Covid-19 pandemic and the resulting State of Emergency. At the same time, Timor-Leste is living in a state of financial uncertainty, with the imminent end of production at Bayu-Undan, and our investments vulnerable to global market volatility.

Although Timor-Leste has spent \$12 billion from the Petroleum Fund, 46% of our people live in multidimensional poverty,¹ without adequate basic services such as sanitation, clean water, health and education.

¹ UNDP 2020. The Global Multidimensional Poverty Index, hdr.undp.org/en/2020-MPI.

The Government has not yet used our oil and gas wealth to improve the lives of ordinary people. Sectors with the potential to enrich people's lives continue to stagnate. The Government and development partners reported in 2019 that 36% of the population still faces chronic food insecurity.² Only 15-37% of households can eat enough each day to meet their nutritional needs.³ Forty six percent of children under five are stunted, and 40% are wasting (underweight).⁴

Timor-Leste's decision makers need to fully achieve Article 139 of our Constitution, which states that the nation's natural resources are to be developed for the good of the people, not for the benefit of decision makers' personal ambitions which continue to sacrifice the well-being of the people and future generations.

Through this submission, we would like to share our perspective and provide general context, based on our analysis, to support the Distinguished Deputies during plenary debates on the 2020 Budget. Although Parliament has only a brief period to discuss this proposed State Budget, we hope that you use your Constitutional mandate to discuss it thoroughly.

How can execution of the 2020 State Budget be assured?

The political impasse, extraordinary Petroleum Fund transfers, state of emergency, and global economic volatility that emerged in the context of the pandemic pose challenges to the implementation of Government programs this year. Although the enactment of a 2020 State Budget can provide some certainty, transparency, and support for Government programs, we also need to consider the reality that it is difficult - even dangerous - to spend large amounts of money during the three months left before 2020 ends. The Government needs to ensure that the 2020 State Budget does not encourage ministries and implementing agencies to spend money hastily, without long-term thinking, or with unrealistic plans.

One example in this proposed Budget is the \$6.5 million allocation to the Ministry of Transport and Communications. Considering their expenditure to date, this means the Ministry must spend 69% of its appropriation for the entire year allocation in only three months. The Ministry has only spent 25% of the Goods and Services allocation within its budget, which leaves the Ministry with 75% of this budget to spend in the next three months. While the development of transport and communications is important, we need to consider the institutional capacity to spend so much in a short period of time. Pressure to execute funds quickly could impact program quality and efficiency.

Another example is the allocation to the Courts, which is proposed at \$4.9 million for the entire year of which, considering execution to date, leaves 45% to spend during three months. Of the total allocation to the Ministry of Tourism, Commerce and Industry, 46% remains to be spent. These Ministries and the Courts allocations are examples of a broader pattern that expects budget execution to increase rapidly before the end of 2020.

² MAP & Development Partners 2019. The First IPC Analysis Report on the Chronic Food Insecurity Situation in Timor-Leste.

http://www.ipcinfo.org/fileadmin/user_upload/ipcinfo/docs/3_IPC_Timor%20Leste_CFI_20182023_English.pdf

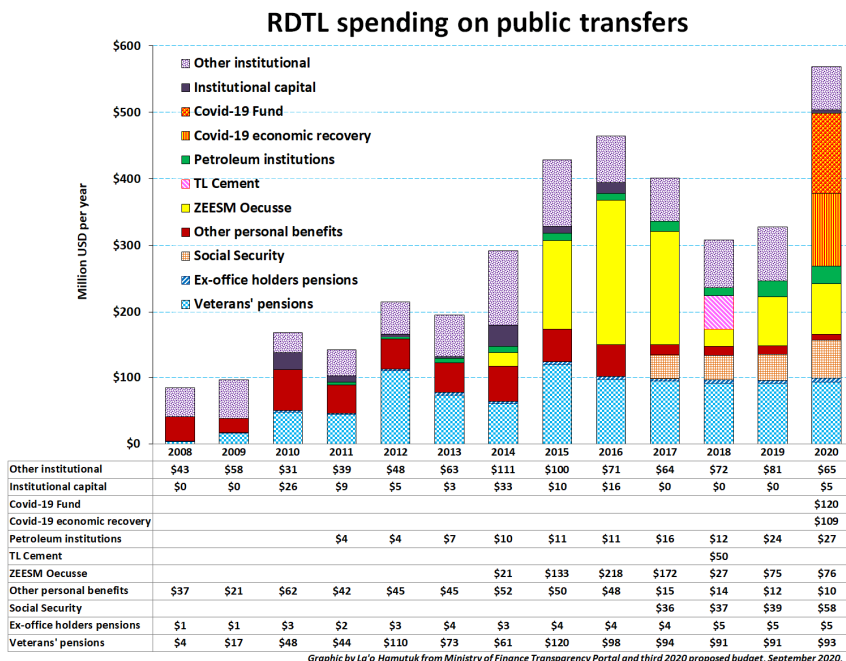
³ WFP 2019. Fill the Nutrient Gap. <https://www.wfp.org/publications/fill-nutrient-gap-timor-leste>

⁴ DGE TL 2016. Timor-Leste Demographics and Health Survey.

We encourage the National Parliament to analyze the needs and capacity of each Ministry in relation to their allocations in the proposed 2020 State Budget.

We encourage Government to practice transparency for RAEOA.

We continue to wonder about the \$76 million 'public transfer' to RAEOA-ZEESM. In addition to receiving a disproportionate amount from the proposed Budget, ZEESM has been inconsistent in providing clear information and justification for its budget. This transfer mechanism excludes ZEESM from normal processes of transparency and



public accountability. We appreciate the provision of a RAEOA activity report and expenditure projections for the first quarter of 2020. However, RAEOA-ZEESM is still without specific legal requirements to enact a system of accountability and transparency that would allow the public to monitor and own the project.

We believe that RAEOA-ZEESM does not need a special transfer and should be treated like other public institutions in Timor-Leste. On the other hand, when we consider the contributions and commitment from RAEOA itself, we don't see any economic return on the investments made by the Government, considering that that total revenue to date is less than \$5 million.

We are also concerned about the \$31 million allocated to ZEESM's "Special Development Fund." According to principles of transparency and accountability, no agency should be given a blank check.

Reducing the allocation to the Tasi Mane Project is a positive step.

For almost ten years the Government has spent hundreds of millions of dollars on the Tasi Mane Project, which is still uncertain and whose long-term benefits for our people remain unproven. We appreciate that the Government has reduced the Tasi Mane Project appropriation in this Budget proposal. The allocation of \$17 million in direct and indirect funding is 73% less than 2019, and 85% less than the allocation in 2018.

We hope the Government will shift its focus and invest much more in important sectors that can directly benefit people's livelihoods. To date, there has not been an independent assessment of this project, and industry experts have called for a thorough evaluation to analyze its costs, benefits, and risks. We therefore appreciate the

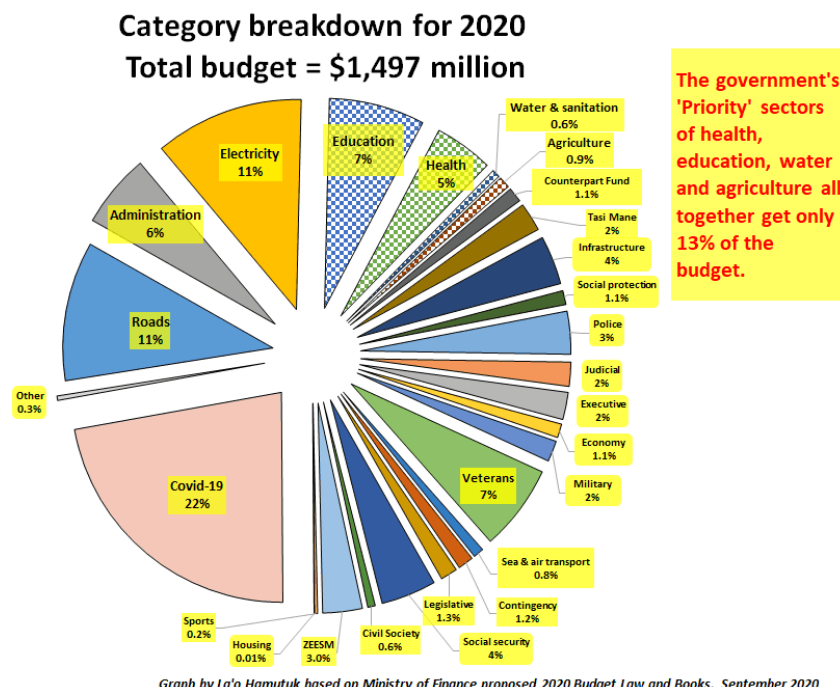
willingness shown in recent media statements by the Minister of Petroleum and Minerals and the President of TimorGAP that they intend to review all studies related to oil and gas projects, including the Tasi Mane Project.

We encourage the Government to move forward with an independent study to provide credible analysis of the costs, benefits, and risks of the Tasi Mane Project and options for Greater Sunrise. This will ensure maximum benefit for the people of Timor-Leste and reduce the chance that the project will damage the nation’s socio-economic security.

The reality is that many people now realize that the Bayu-Undan reserve will soon be exhausted, but we continue to neglect economic investments in non-petroleum sectors which are critical for our people’s well-being. We therefore encourage the Government to give serious attention to economic development based on reality, not on fantasy.

Promote the grassroots economy to support sustainable livelihoods.

Domestic agricultural production levels show that our productive sectors are not yet well-developed to reduce our dependence on the very limited Petroleum Fund. In the agriculture sector, food production output shows little change from ten years ago, without diversification to reduce dependence on rice imports. In 2019 Timor-Leste’s rice production was 47,822 tons, almost the same as the 48,154 tons produced in 2008. Corn production in 2019 fell to 75,690 tons, less than the 2015 production of 95,433 tons. This situation increases our dependency on imported food, and, when confronted with situations like the Covid-19 pandemic, exposes us to food insecurity.



The government's 'Priority' sectors of health, education, water and agriculture all together get only 13% of the budget.

The agriculture sector is the principal source of food and income for 64% of households in Timor-Leste, but it still gets little attention. This is because of a lack of political will and strategic vision about how to protect and develop the sector so that it can become a pillar of the nation’s economy. Without political will and a clear strategic vision, annual allocations to agriculture (less than 1% in this proposed budget) continue to be spent on purchasing and distributing production inputs including seeds, fertilizer and machinery, which fail to strengthen the agricultural sector. We note that, to date, production has not increased, the area under cultivation continues to shrink, agricultural data is incomplete and not credible, the Ministry of Agriculture and

Fisheries has no capacity to control animal diseases like African Swine Flu, agricultural processing remains very limited, and imports increase every year.

These concrete examples shown the need for increased allocations in the State Budget, but the allocations that have been made fail to benefit the agricultural community and their livelihoods, or to ensure their well-being or long term work opportunities.

On the other hand, we observe that the Ministry of Economic Affairs has begun to coordinate with the Ministry of Commerce and Industry, the Secretary of State for Cooperatives, and the Ministry of Agriculture and Fisheries to increase production to supply the “Basic Basket” (*Cesta basica*) program. This model can incentivize increased production. We urge the Government, however, not to repeat the mistakes of past programs, including “Povu Kuda Governu Sosa” and “Loja do Povu.” We hope that this new program will include a clear mechanism to procure agricultural products from markets and from producers themselves, to strengthen grassroots economies throughout the country.

According to the recommendations of the Economic Recovery Commission, the Government will issue vouchers in municipal capitals. We recommend that these vouchers be valid for use at local markets, so that this part of the program can give direct benefit to the people.

We hope that the 2020 State Budget will kick off an in-depth discussion about key sectors. We recognize that this proposal has not emerged in a normal situation, but we hope that with this budget we can begin more detailed discussions about productive sectors for the 2021 State Budget.

The public needs detailed information about future debt.

We appreciate that the Government has published information about the planned disbursement of \$60 million in borrowed funds in 2020. However, we need to recognize our current situation: the Petroleum Fund will soon be exhausted, and production from Bayu-Undan is almost finished. La’o Hamutuk believes that we cannot continue to estimate Timor-Leste’s capacity to repay debt based on today’s GDP and revenue. When the Petroleum Fund is empty and production of Bayu-Undan has ended, the indicators that the Government and international agencies use to assess the risk of debt will show a higher level of risk.

For example, the repayment-to-income and debt-to-GDP ratios indicate that Timor-Leste does not currently face a major risk from its loans. However, the Government has not published projections of what these indicators will show after 2035, when the Government expects that the Petroleum Fund will be almost empty. We need to understand the risks we face both today and in the future.

Budget Book 1 proposes a ceiling for new loans of \$200 million (although the draft law says \$750 million), but fails to provide clear information about intended creditors, how the debt will be repaid, and over what period of time. It also does not include specific information about the projects to be funded with the loans. For example while the Government shows that 40% of the new loans under the increased ceiling will be for water and sanitation, it does not explain what the Government intends to implement, or how we will repay once the Petroleum Fund is exhausted. We therefore urge

Government to provide detailed information and projections about proposed new loans, together with the texts of agreements already signed.

Conclusions and recommendations

We recommend that Government allocate funds to institutions based on their capacity to use them effectively during the short time remaining in 2020, and encourage Parliament to insist that ZEESM be accountable for public money it receives, just as other entities are. This will allow Parliament and other leaders to monitor the use of people's resources more effectively and rigorously.

While La'o Hamutuk appreciates the lower allocation to the Tasi Mane Project for 2020, we suggest that the Government suspend implementation of all components of this project until we have the results of a study of the costs, benefits and risks.

To free Timor-Leste from dependency on importing rice and other goods, the Government and other relevant entities need to strengthen and diversify domestic food production, to improve the quality of life of the people and strengthen household economies. We note that the \$109 million allocated to economic recovery from the Covid-19 pandemic demonstrates the Government's commitment to prevent a dire situation. We suggest the Government invest in productive and social sectors to better prepare Timor-Leste for any future crises.

We suggest that Members of Parliament discuss the issue of loans in depth and ask the Government to supply all relevant information about the costs and risks that will confront Timor-Leste after the Petroleum Fund is exhausted. Members should also request full information about the new loans that the Government plans to sign.

We realize that the 2020 Budget only covers the last three months of this year, however we urge the Government to prioritize basic services in future budgets, including water, sanitation, education and health, to respond to the urgent situation facing our people.

Finally, we wish to thank you for the opportunity to share our thoughts through this submission, and we hope that our perspectives and recommendations can help you engage in careful and intelligent discussions about the 2020 State Budget for the benefit of the people of Timor-Leste.

Thank you for your attention and consideration. We would be pleased to discuss further and share information with you about the concerns raised in this submission.

Sincerely,



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